NOVEMBER 10, 2016

CARE REVISES THE RATING ASSIGNED TO THE BASEL III COMPLIANT ADDITIONAL TIER I PERPETUAL BONDS OF BANK OF MAHARASHTRA

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Basel III Compliant Additional Tier I Perpetual Bonds ^^	1,000 (Rupees One Thousand crore only)	CARE A (Single A)	Assigned
Basel III Compliant Additional Tier I Perpetual Bonds ^^	1,000 (Rupees One Thousand crore only)	CARE A (Single A)	Revised from CARE A+ (Single A Plus)
Upper Tier II Bonds Series I (under Basel II)*	300 (Rupees Three crore only)	-	Withdrawn

^^CARE has rated the aforesaid Basel III Compliant Tier-I Perpetual Bonds after taking into consideration its key features as below:

- The bank has full discretion at all times to cancel coupon payments.
- The coupon is to be paid out of current year's profits. However, if the current year's profits are not sufficient, ie, the payment of such coupon is likely to result in losses during the current year, the balance of coupon payment may be made out of revenue reserves and/or credit balance in profit and loss account provided the bank meets the minimum regulatory requirements for Common Equity Tier I [CET I], Tier I and Total Capital Ratios and capital buffer frameworks as prescribed by the Reserve Bank of India [RBI].
- The instrument may be written-down upon CET I breaching the pre-specified trigger of 5.5% before March 31, 2019, and 6.125% on and after March 31, 2019, or written-off / converted into common equity shares on occurrence of trigger event called point of non-viability (PONV). The PONV trigger shall be determined by RBI.

Any delay in the payment of interest/principal (as the case may be) due to invocation of any of the features mentioned above would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared with the conventional subordinated debt instruments.
*CARE has withdrawn the rating assigned to the Upper Tier II Bonds (under Basel II) Series I issue of Rs.300 crores with immediate effect, as the bank has fully repaid the amounts of the said instrument and there is no amount outstanding as on date.

Rating Rationale

The revision in rating assigned to the Basel III Compliant Additional Tier I Perpetual Bonds of the bank is on account of deterioration in the financial risk profile of the bank and on account of sharp deterioration of asset quality leading to pressure on earnings profile and profitability.

The rating continues to derive strength from the majority ownership by the Government of India (GoI), adequate capitalisation parameters, moderate operating performance and stable proportion of Current Account Saving Account (CASA) deposits.

The rating is constrained by continued deterioration in asset quality of the bank during FY16 (refers to the period April 1 to March 31) and Q1FY17 (refers to the period April 1 to June 30) resulting in stress on the profitability on account of increased cost of provisioning.

The continued ownership and support from the GoI, asset quality, capital adequacy and profitability are the key rating sensitivities.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Background

Bank of Maharashtra (CIN: U99999MH1935PTC002399) was incorporated in the year 1935 and is headquartered in Pune (Maharashtra). The Government of India (GOI) holds majority of stake [81.61% as on March 31, 2016] in the bank. The bank had a network of 1,895 branches and 1,861 ATMs as on March 31, 2016. Around 61% of the bank's branches are in the state of Maharashtra. All the branches of the bank are Core Banking Solution (CBS) enabled.

The bank has one wholly-owned subsidiary, The Maharashtra Executor and Trustee Company Private Limited (METCO), which is primarily in the business of managing public charitable and private trusts. The bank has sponsored 'Maharashtra Gramin Bank' (MGB) which is a Regional Rural Bank (RRB) having its head office at Aurangabad (Maharashtra). The bank is headed by Mr. Ravindra Prabhakar Marathe who took over as the Managing Director and CEO of the bank in September, 2016.

During Q1FY17, the bank's deposits grew by 3.85% (y-o-y) as compared to industry growth of 8.1% and its Gross advances grew by 7.04% as compared to industry growth of 8.8%. During the year, the proportion of low cost Current Account Savings Account (CASA) remained at healthy level of 36.67% of total deposits in FY16 as compared to 38.81% of the total deposits in Q1FY17.

Due to stagnation in credit growth and interest reversal due to rise in slippages, the interest income of the bank saw de-growth of 4.97% (y-o-y) during Q1FY17 as a result of which the total income declined by 2.32% during Q1FY17. The bank's Net Interest Income declined by 15.51% during Q1FY17. During Q1FY17, BOM reported net Loss of Rs.397 crore on a total income of Rs.3,444 crore during Q1FY17 as compared to Profit After Tax (PAT) of Rs.59 crore on total income of Rs.3,526 crore during Q1FY16. The bank had reported PAT of Rs.101 crore on total income of Rs.14,072 crore during FY16.

The asset quality of the bank saw significant deterioration during Q1FY17 and the bank reported Gross NPA ratio of 12.64% (March 31, 2016: 9.34%) and Net NPA ratio of 8.73% (March 31, 2016: 6.35%) as on June 30, 2016 while its Net NPA to Net worth ratio stood at 122.50% (March 31, 2016: 91.20%) as on June 30, 2016.

The bank reported Capital Adequacy Ratio (CAR) of of 11.53% (Tier I CAR: 8.86%) as on June 30, 2016 with Common Equity Tier I (CET I) of 7.69%.

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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